



MINISTRY OF FINANCE

Budget review 2020

Review on central government
budget proposal 2020, October 2019

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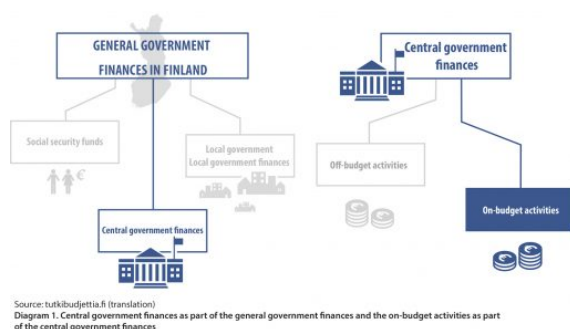
Economic Policy

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1 Introduction

General government finances in Finland consist of central government, local government and social security funds. Central government finances include the central government budget economy i.e. the on-budget activities and off-budget activities (the off-budget activities are discussed in chapter 9 “Extra-budgetary central government finances” of the general strategy and outlook of the budget proposal). The position of central government on-budget activities in central government finances and general government finances is illustrated by Diagram 1. This publication is mainly concerned with the central government on-budget activities. The Government’s budget proposal for 2020, which will be submitted to Parliament in October, is examined in the present review. The purpose is to provide a concise description of the main themes of the central government budget with the help of diagrams and tables as well as to guide the reader to explore the themes in more detail via Internet links. The background materials for budgeting include the independent economic forecasts produced by the Economics Department at the Ministry of Finance, which are presented in the Economic Survey.



In Finland, the Parliament has the prime decision-making authority on the use of central

government resources. The Parliament primarily exercises its power in two ways: by enacting laws and approving budgets. The majority of the content of the budget is bound by law and, indeed, laws are often amended before making decisions on the budget. The Parliament approves the budget for the following budget year before the end of the previous budget year.

The central government budget is a plan concerned with the central government's finances and financial management prepared on the basis of the General Government Fiscal Plan published in the spring as well as the Programme of Prime Minister Rinne's Government. In practice, the central government budget evaluates the extent and allocation of central government revenue and expenditure for the following year. The Government negotiates on the budget proposal in the budget session.

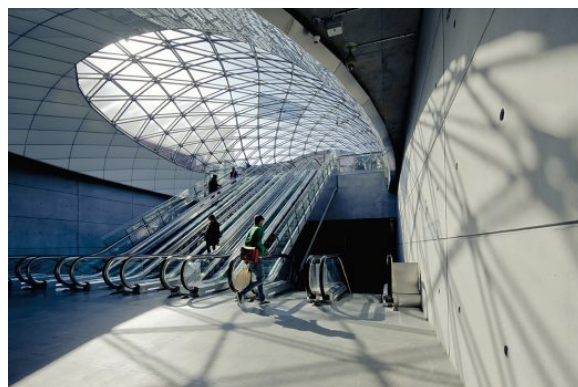
The Government Programme defines the Government's main economic policies, which serve as the basis for preparing the budget. At the beginning of the parliamentary term, the Government also decides on the spending limits for the parliamentary term, i.e. the central government's expenditure ceiling, and the rules for the spending limits procedure. At the same time, the spending limits set the outline for the entire expenditure during the four-year parliamentary term. The spending limits' allocation for each administrative branch is reviewed within the parliamentary term spending limits in April as part of the General Government Fiscal Plan, and updates the spending limits to correspond to changes to the level of costs, prices and spending limit

expenditure structure. For more information, see <http://vm.fi/valtion-talouden-kehyykset>.

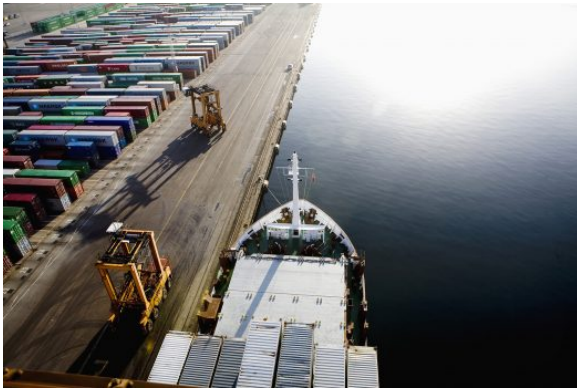
The final sum of the budget proposal for 2020 is EUR 57.6 billion. Most of the appropriations will be spent on social security. Revenue will be primarily collected in taxes based on turnover, such as value-added tax, and income taxes, including earned income and capital income tax. The central government on-budget deficit is predicted to amount to EUR 2.0 billion and central government debt is expected to rise to approximately EUR 109 billion.

The following chapter includes an overview of the economic outlook in the areas of real economy and general government finances. Chapter 3 is concerned with the Government's economic policy goals and their im-

plementation. Chapter 4 examines the future-oriented investments planned by the Government. Chapter 5 includes revenue and expenditure estimates, deficit and debt in the central government budget proposal. Local government finances are also discussed from the viewpoint of the on-budget activities. Chapter 6 includes a summary of the review.



2 Economic outlook



The economic review of the Ministry of Finance deals with the economic outlook at the national and international level as well as economic policy and general government finance.

Real economy

The short-term outlook for the Finnish economy remains positive despite worrying economic news received from elsewhere in the world, as growth is sustained by domestic demand. Finland's gross domestic product is expected to grow by 1.5 % in 2019, after which economic growth is expected to slow down to 1.0 per cent in 2020. The demand for Finnish exports will grow more cautiously in 2019 and subsequently continue on a moderate track. The significance of public consumption and investments to growth will be highlighted in 2020 as a result of the measures recorded in the Government Programme. There will be a slowdown in private consumption growth in 2020 as the household savings rate will slowly decline towards more normal levels.

The number of employed persons will increase to 73.4 per cent by 2021. As unemployment is falling and the mismatch between

the supply of and the demand for labour force is increasing, the rate of growth in earnings is expected to approach the annual rate of 3%, which is expected to gradually have a broader impact on inflation.

Table 1. Trends in the national economy 2017–2020
September 2019 forecast

	2017*	2018*	2018**	2020**
GDP at market prices (EUR bn)	225.8	234.5	242.1	249.3
GDP, change in volume (%)	3.1	1.7	1.5	1.0
Unemployment rate (%)	8.6	7.4	6.5	6.3
Employment rate (%)	69.6	71.7	72.5	73.0
Consumer price index, change (%)	0.7	1.1	1.1	1.4
Interest rate (10 year bonds) (%)	0.5	0.7	0	-0.2

* Advance information
** Forecast

General government finances

The steady growth of the Finnish economy over the past few years has improved the state of general government finances. As the upturn is slowing down, general government deficit will no longer improve at the same rate. The deficit will start growing in 2019 and the trend will continue over the following few years. Even though the Finnish economy will grow more or less at its potential rate, expenditure is increasing faster than revenue. There is a structural imbalance between expenditure and revenue in general government finances.

The economic upturn has contributed to concealing the structural problems that affect Finland's general government finances. Ageing of the population has already increased pension expenditure and it will also push up care and nursing expenditure in the coming years. The sustainability gap in general government finances remains unsolved. General government debt to GDP ratio has fallen be-

low the 60% limit but the ratio will start growing again during the early years of 2020s.

Expenditure in the next few years will be boosted by the permanent and one-off spending increases planned by Prime Minister Rinne's Government. However, the tax increases introduced by the Government will mitigate the impact of higher spending.

The risks affecting general government finances are closely connected to overall economic developments. If economic growth turns out to be slower than projected, the rise in tax revenue will remain weaker than predicted and expenditure items such as cyclical unemployment spending will increase faster than expected.

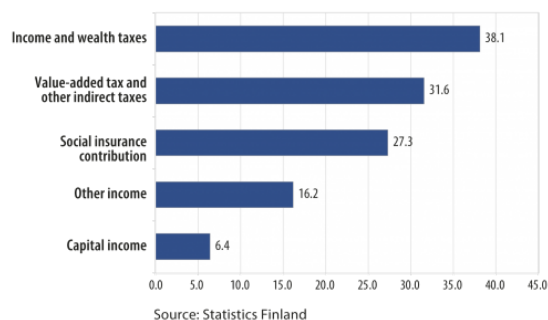


Diagram 2. General government revenue in 2017, EUR bn

Most of general government expenditure consists of expenditure on social security benefits, as shown in Diagram 3. This expenditure includes pensions, unemployment benefits, benefits aimed at families as well as housing allowance, allowances during illness and allowances preventing social exclusion.

Table 2. Key figures measured in terms of national accounting in ratio to GDP, percent
September 2019 forecast

% of GDP	2017*	2018*	2019**	2020**
Taxes and social security contributions	43.0	42.3	41.9	42.2
General government expenditure	53.7	53.1	52.7	53.1
General government net lending	-0.7	-0.8	-1.0	-1.4
- central government	-1.8	-1.2	-0.9	-1.2
- local government	-0.2	-0.9	-1.2	-0.9
- employment pension schemes	1.0	1.0	0.8	0.7
- other social security funds	0.3	0.3	0.2	0.1
General government debt	60.8	58.9	58.8	58.8
Central government debt ¹⁾	46.8	44.8	44.4	43.9

* Advance information

** Forecast

1) The estimate of central government debt by the Economics Department of the Ministry of Finance differs from that estimated based on the budget, for instance, due to updated revenue forecasts

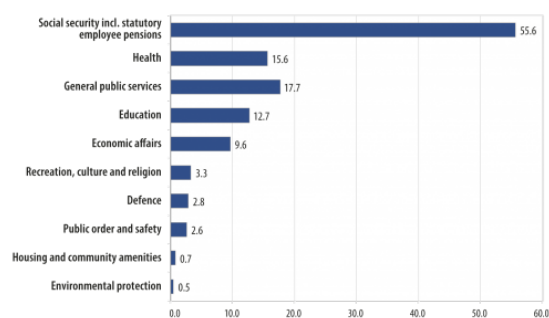


Diagram 3. General government expenditure by function (COFOG) in 2017, EUR bn

In addition to economic cycles, the structures of general government finances are also reflected on the revenue contributions to general government and the allocation of expenditure. Diagram 2 illustrates that the majority of general government revenue was collected as income or wealth tax, and as indirect tax, in 2017.

Table 3 illustrates the average extent of the costs resulting from education and culture as well as social welfare and health care services. The table reveals, for example, that the costs per student of vocational education and training were the highest compared with other forms of education in 2017.

Table 3. Average expenses of selected public services in 2017

	EUR	
Education and culture		
Basic education	8 941.0	/pupil/year
Upper secondary education	7 669.0	/student/year
Initial vocational education	10 545.0	/student/year
Polytechnic education	8 021.0	/student/year
University education	8 460.0	/student/year
Public libraries	3.7	/loan
Social services		
Children's day care ¹⁾	86.4	/day
Old people's homes ²⁾	170.0	/day
Health care services		
Basic health care		
- Visit to health centre ³⁾	77.8	/visit
- Ward treatment	308.0	/day
- Dental care	109.8	/visit
Special medical treatment		
- Somatic specialised medical treatment ⁴⁾	1 661.6	/day

1) Includes part-time and full-time day care financed by municipalities. The number of days of care has been weighted in terms of part-time and full-time day care, with a weighting factor of 0.6 used for days of part-time day care and a weighting factor of 1 for days of full-time day care.

2) Based on the costs of the six largest 'Kuusikko' municipalities.

3) Includes all visits, incl. e.g. child welfare clinic and physiotherapy. The average cost of a visit to a doctor in basic health care is EUR 90/visit.

4) Includes inpatient care and day surgery

Sources: National Board of Education, National Institute for Health and Welfare, Finnish Public Libraries Statistics and Statistics Finland

3 Government economic policy

Prime Minister Antti Rinne's Government has determined its economic policy in its Government Programme (<http://valtioneuvosto.fi/rinteen-hallitus/hallitusohjelma>).

The Government's economic policy aims at increasing wellbeing, which refers to ecologically and socially sustainable economic growth, a high employment rate, and sustainable general government finances.

The following key economic policy objectives have been determined for the government term:

- The employment rate will be raised to 75 per cent and the number of people in employment will increase by a minimum of 60,000 by the end of 2023
- Given normal global economic circumstances, Finland's general government finances will be in balance in 2023
- The Government's decisions will reduce inequality and narrow income gaps
- The Government's decisions will put Finland on a path towards achieving carbon neutrality by 2035

The Government's permanent additional expenditure based on decisions will be primarily covered by permanent additional revenue based on decisions. By decisions of the Government, permanent expenditure at the level of 2023 will be EUR 1.4 billion higher than in the Technical General Government Fiscal Plan of spring 2019. A spending increase of around EUR 1.1 billion is expected in 2020. Permanent new expenditure will be allocated

to targets such as strengthening competence and social justice, and to climate policy measures.

The permanent additional expenditure will be primarily covered by permanent additional revenue based on decisions as well as the re-allocation of resources. As indicated in the Government Programme, the funding base of the welfare state will be strengthened through taxation by around EUR 0.7 billion. A small share of the additional expenditure will be financed by reallocating on-budget expenditure and revenue, for instance, by lowering the level of certain deferrable appropriations. Achieving the Government objective for 75-per-cent employment would enhance general government finances to an extent that would enable allocating a part of the increased resources to the additional expenditure. Attaining this goal requires measures that support the supply of and demand for labour and alleviate the labour market mismatch. This higher employment rate is the most important individual element in the revenue base of the Government Programme. The Government also implements productivity measures targeting general government finances.

Finland's general government fiscal targets are also governed by EU regulations, most significant of which is the Stability and Growth Pact, which requires that Member States maintain structural balance in general government finances and avoid excessive debt. Under EU legislation, general government deficit may not exceed 3% and general government debt may not exceed 60%

of gross domestic product. A medium-term objective (MTO) is also set for general government's structural budget position and assessed with the aid of two pillars, the structural balance and the expenditure benchmark. The medium-term objective for structural budget position adopted by the Government in autumn 2019 will remain unchanged at -0.5% of gross domestic product. Other objectives for general government finances, including subsector targets, will be set out so that they are in line with the goal of reaching a balance in Finland's general government finances by 2023.

Table 4 describes the objectives and rules that guide Finland's fiscal policy, and compares them with the forecast by the Ministry of Finance. The majority of the fiscal policy objectives of Prime Minister Rinne's Government cannot be achieved without introducing new measures for improving employment and general government finances during the government term. According to an independent projection by the Ministry of Finance, the general government deficit will grow to around 1.5 per cent in ratio to GDP in the early 2020s. Central and local government will be unable to reach the nominal budgetary

targets that have been set for them. The surplus of the employment pension institutions will also fall below the one-per-cent surplus target set for them. By contrast, other social security funds will stay in balance according to the set goal.

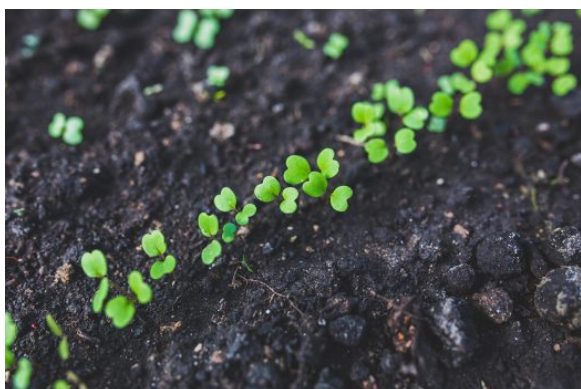
Table 4. Objectives and rules steering Finland's fiscal policy

Public finance sector	Variable	Target for 2023: % of GDP	Estimate for 2023: % of GDP
Government's budgetary targets for the parliamentary term			
General Government	Net lending	0.0 %	-1.4 %
Central government	Net lending	no less than -0.5 %	-0.9 %
Local government sector	Net lending	no less than -0.5 %	-1.2 %
Social security funds			
- Earnings-related pension funds	Net lending	approximately 1.0 %	0.6 %
- Other social security funds	Net lending	approximately 0.0 %	0.0 %
General government finances	Debt	debt-to-GDP ratio decreases	61.6 %
EU rules			
General government finances	Net lending	no less than -3.0 %	-1.4 %
	Debt*	60 %	61.6 %
	Medium-term budgetary objective (MTO) for structural budgetary position**	-0.5 %	-1.4 %

* The interpretation of the EU's debt rule also takes into account e.g. the speed of debt reduction in the past and the future.
 ** Under the Stability and Growth Pact, EU Member States are obligated to set a medium-term budgetary objective (MTO) for the structural deficit of general government finances. The structural deficit of 0.5 % in ratio to GDP has been set as Finland's MTO. The achievement of the objective is assessed with the help of the structural balance and the expenditure benchmark. More information in the General Government Fiscal plan for years 2020–2023 in appendix 5 Finland's Stability Program.



4 Future-oriented investments



During the parliamentary term, Prime Minister Rinne's Government will implement a one-off programme of future-oriented investment that supports the attainment of the Government Programme's objectives and long-term sustainability of general government finances. Under the programme, a total of at most EUR 3 billion can be allocated to one-off investments and experiments with societal significance during the current parliamentary term. The measures are non-recurrent and they will not increase central government expenditure in 2023.

In connection with the Budget proposal for 2020 and the 2020–2023 General Government Fiscal Plan, the Government has decided to allocate a total of EU 1.4 billion to one-off future-oriented investments of which EUR 0.75 billion will be budgeted for 2020. In 2020, significant investments will be made in hiring teachers and instructors in vocational education and training, amounting to EUR 80 million, an action plan for quality and equality in comprehensive school education, amounting to EUR 60 million, and compensatory allowances for permanent natural handicaps and Business Finland aids for a company-led R&D&I package. Nearly EUR

50 million in additional investments from the National Housing Fund will also be allocated in 2020.

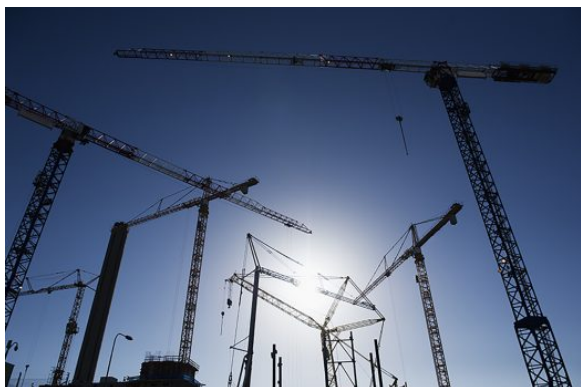
In accordance with the Government Programme, the measures will be primarily funded through property income in a manner ensuring that the Government's future-oriented investment programme will not diminish the central government on-budget deficit or increase central government debt. Nevertheless, the future-oriented investments will undermine the general government budgetary position related to national accounting. The budget proposal for 2020 includes EUR 726 million in property income for the purpose of financing the future-oriented investments.

Table 5 presents the supplementary appropriations related to future-oriented investments divided by the strategic themes of the Government Programme. The General Government Fiscal Plan 2020–2023 included allocating a spending limits reserve for 2021 and 2022 to the final phase of the future-oriented investment programme, amounting to around EUR 1.7 billion. The Government will make decisions on the implementation of the programme in its autumn 2020 budget session as part of the review of employment measures and spending increases agreed in the Government Programme.

Table 5. Future investments by strategic themes of the government programme as decided in the General Government Fiscal Plan for 2020–2023

	2020	2021	2022
Carbon neutral Finland that protects biodiversity	119.7	134.7	18.0
Globally influential Finland	14.4	10.3	0.0
Safe and secure Finland built on the rule of law	24.3	9.8	3.0
Dynamic and thriving Finland	327.1	96.5	1.1
Finland built on trust and labour market equality	24.5	21.6	7.2
Fair, equal and inclusive Finland	35.1	36.4	26.0
Finland that promotes competence, education, culture and innovation	205.4	130.0	120.0
Total	750.4	439.3	175.3

5 Central government budget proposal 2020



Central government revenue and expenditure are examined in the general strategy and outlook of the budget proposal in chapters 4 and 5 as well as in the detailed rationale (www.budjetti.vm.fi). The revenue estimates are presented by department and the appropriation estimates by administrative branch.

5.1 Revenue, expenditure, deficit and debt

Revenue

In 2020, central government on-budget revenue (excluding net borrowing) is estimated to be approximately EUR 55.6 billion, with tax revenue accounting for approximately 86%, i.e. EUR 47 billion. Tax revenue is estimated to grow by 2.7% in 2020 compared to the 2019 budget.

Diagram 4 exclusively examines the development of tax revenue between 2006 and 2020. As a result of the levelling off of the economic upturn starting in 2016, the growth

in tax revenue is also slowing down. However, the revenue from individual tax types has been developing well in different ways. Value-added tax is the central government's largest single source of revenue. Value-added tax revenue is primarily determined by the development of private consumption, which has been relatively steadily growing in recent years.

Corporate tax revenue depends on companies' profitability, which is characterised by considerable cyclical variations. In the long term, the corporate tax revenue has been partly reduced by the fact that the corporate tax rate has been reduced as a result of tax competition when the goal has been to ensure keeping Finland as a competitive investment target. Energy tax revenue will develop relatively moderately despite the increasingly intense taxation. The slow growth of the energy tax income is explained by a moderate development of tax bases, for instance fuel and energy consumption.

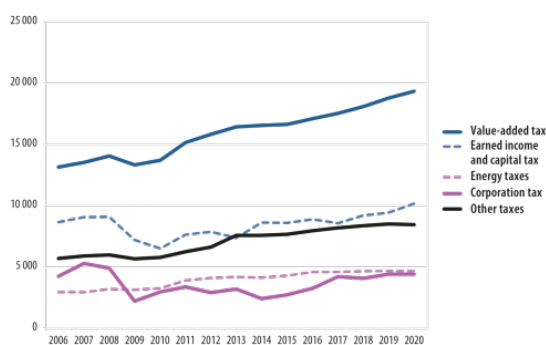


Diagram 4. State tax revenue by type 2006–2020, EUR million

Expenditure

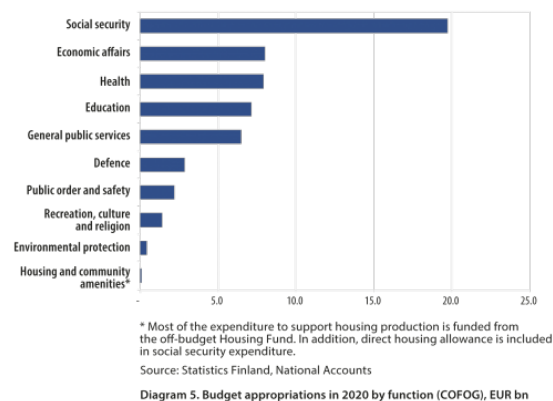
The appropriations of the budget proposal amount to EUR 57.6 billion, which is approximately EUR 2.1 million more than in the actual 2019 budget.

With price rises and structural changes in the budget proposal taken into account, the appropriations will increase by around 2.5 % from the actual 2019 budget. The expenditure will particularly increase due to the additional expenditure in line with Prime Minister Rinne's Government Programme and one-off future-oriented investments. Certain issues known as automatic factors, such as an increase in age-related central government expenses, full index adjustments, and compensation to municipalities for revenue losses arising from changes in tax criteria, will also be apparent as an increase in expenditure compared to 2019. On the other hand, the good employment situation will continue to reduce unemployment security expenditure.

As a result of the new interest rate forecast, debt interest payments will be significantly lower in 2020 compared to the budget set for 2019.

The allocation of appropriations, i.e. central government expenditure, to different purposes depends on political decisions, economic structures and economic cycles. In 2020, a significant share of the appropriations of the central government budget proposal will be allocated to social security (20%). Despite the higher expenditure on pensions compared to the previous year, the total expenditure on social security will decline by around one per cent in 2020. This is influenced by a decrease in unemployment-related

expenses and the fact that the central government's share of expenditure related to the Health Insurance Act will be reduced in 2020. Diagram 5 illustrates where the central government will allocate its appropriations in accordance with the Government proposal in 2020.



Part of the revenue in the central government budget is received from the European Union, while Finland also pays contributions to the EU. At central government level, Finland is projected to contribute approximately EUR 2.3 billion to the EU budget and the European Development Fund in 2020. Finland's contributions will be EUR 130 million higher than the figure budgeted for 2019. Finland is expected to receive revenue of approximately EUR 1.2 billion from the EU budget, which is EUR 25 million more than the projected figure for 2019. The relationship between EU revenue and expenditure in the central government finances is illustrated in Table 6. The key goals of the EU budget for 2020 include supporting the competitiveness of the European economy, and to increase solidarity and improve safety in EU and non-EU states. Negotiations on the EU's multiannual financial framework (for 2021–2027) will continue during Finland's Presidency of the Council of the EU with an aim of finding a

solution by the end of 2019. As a rule, the United Kingdom will participate in financing the EU budget until the end of 2020 despite the country's withdrawal from the EU, and will continue this after this date as the country's budget commitments related to the current funding period (2014–2020) will not be incurred until the following funding period (2021–2027).

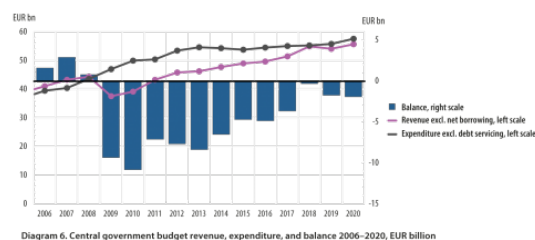


Diagram 6. Central government budget revenue, expenditure, and balance 2006–2020, EUR billion

Table 6. Flow of payments between Finland and the EU 2018–2020, EUR million

Central government expenditure	Final accounts 2018	Budget 2019	Budget proposal 2020
On-budget finances			
VAT payment	292	301	316
GNI payment	1 425	1 619	1 743
Finland's share of the UK budgetary rebate	123	149	147
EU PAYMENTS TOTAL	1 839	2 069	2 206
European Development Fund	68	74	68
Total	1 907	2 143	2 274
Central government revenue	Final accounts 2018	Budget 2019	Budget proposal 2020
On-budget finances			
Agricultural support	525	537	537
Rural development support	346	340	370
Subsidies from structural funds and cohesion funds	189	200	190
Customs duties and other levies	35	37	38
Other revenue	41	41	45
Off-budget finances			
Intervention Fund of Agriculture	0	0	0
Fund for Agricultural Development	0	0	0
Total	1 136	1 154	1 180
Customs duties, agricultural payments and sugar payments collected on behalf of the EU	173	184	189

Debt

At the end of 2020, central government debt, including debt of off-budget entities, is expected to be approximately EUR 109 billion, which is approximately 44% in ratio to GDP. The central government debt interest payments are estimated to amount to EUR 870 billion, which is approximately EUR 300 million less than in the actual 2019 budget. Diagram 7 shows that the debt-to-GDP ratio has been reducing in recent years even though, in euro terms, the increase in debt has been continuing.

Deficit

The central government budget proposal for 2020 shows a deficit of approximately EUR 2.0 billion, which will be covered by increased borrowing. In national accounting terms, the central government deficit for 2020 is expected to be approximately 1.2% in ratio to GDP. Central government on-budget activities have shown a deficit since 2009. The situation is illustrated in Diagram 6.

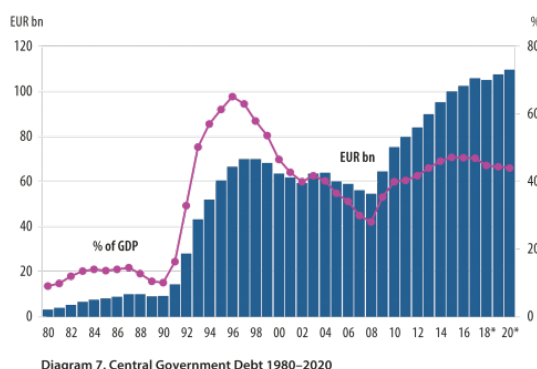


Diagram 7. Central Government Debt 1980–2020

5.2 Excerpts from tax and appropriation decisions in budget proposal 2020

TAX CRITERIA CHANGE

One of the objectives of the tax policy of Prime Minister Rinne's Government has been to ensure the financial basis for the welfare state in the digital and rapidly developing global economy. A more comprehensive tax base will be introduced to enable low tax rates and equal taxation that promote business activities, employment, growth and well-being. The solutions sought in taxation promote the Government's climate targets in the most economically efficient manner, accelerate the transition from fossil fuels, and simultaneously meet the criteria for social justice.

In accordance with the Government Programme, the higher taxes will be primarily focused on excise duty. The aim is to finance some of the permanent spending increases envisaged in the Government Programme and at the same time to encourage citizens to adopt healthier and more environmentally friendly consumption habits. To promote healthier lifestyles, excise duties on tobacco products, alcohol and soft drinks will be raised during the Government term. Compensation for higher consumption taxation will be in the form of lower income taxes in low-income and middle-income brackets.

In line with the Government Programme, the taxes on transport fuels will be raised in 2020, resulting in an estimated increase in annual tax revenue by EUR 250 million. To promote health, taxes on tobacco products (+ EUR 50 million) and soft drinks (EUR +25 million) will be raised. The taxation of earned income will be subject to an index adjust-

ment, which will reduce the annual central government tax revenue by EUR 275 million. The aim of the index adjustment is to avoid an increase in the tax burden as a result of a progressive tax system and higher income level. The Government will also moderately reduce the taxes on low and middle incomes. The purpose of this measure is to compensate on the effects of higher indirect taxes. The income tax base will be intensified by limiting the scope of the domestic help credit and restricting the right to a mortgage interest relief. The validity of the solidarity tax, which was originally in effect for a fixed period, will be continued.



GENERAL PUBLIC SERVICES

EUR 1.5 million in 2020 will be allocated to the Healthy Premises 2028 action plan, the purpose of which is making public buildings healthier and providing more efficient treatment and rehabilitation for those suffering from symptoms caused by poor quality indoor air.

Approximately EUR 36 million is proposed to support the activities of political parties, EUR 6 million more than in 2019.

An increase of EUR 5 million is proposed in salary appropriations for Ministers, State

Secretaries and Special Advisers compared to 2019. The increase is a result of an increase in the number of Ministers, State Secretaries and Special Advisers, adjustments to the remuneration criteria, and elimination of the spending cuts in the fees paid to the ministers in the previous Government.

FOREIGN AFFAIRS ADMINISTRATION

A EUR 1 million increase is proposed for the Foreign Affairs Administration for the purpose of expanding Finland's network of diplomatic missions.

A total of EUR 1.0 billion is proposed for international development cooperation. In 2020, the level of development cooperation appropriations is expected to be approximately 0.41% in ratio to the gross national income.

An appropriation of EUR 2.5 million is proposed to mediation in 2020.

DEFENCE

An increase of EUR 5.5 million is proposed to defence force appropriations for the purposes of increasing the number of personnel and tasks, the number of refresher training exercises, and the new operating model for voluntary defence training.

The full replacement of the performance of Finland's Hornet fighter jet fleet will cause already result in costs at the preparation stage before a final purchase decision, and EUR 10 million is proposed to this expenditure in 2020. EUR 765 million in appropriations is proposed to defence material pur-

chases, including the funding contribution to the Squadron 2020 project.

EUR 113 million is proposed to military crisis management expenditure, EUR 3 million more than in the actual 2019 budget. EUR 16.6 million is proposed to civilian crisis management.

PUBLIC ORDER AND SAFETY

EUR 816 million is proposed to the police force. The appropriation is used to launch measures that aim at increasing the police officer person-years to the level determined in the Government Programme, 7,500 person-years, by the year 2023.

To ensure the performance of the operators involved in preventing and solving criminal offenses and the implementation of prosecution services, additional funding amounting to EUR 5.2 million is allocated to the prosecution service, courts, legal aid, and the Criminal Sanctions Agency. A one-off addition of EUR 2 million is proposed to focusing evidence on the District Courts.

A total of EUR 268 million is proposed to the Finnish Border Guard. The budget proposal pays attention to the objective recorded in the Government Programme for safeguarding the performance of border security and the number of border guards by increasing the appropriations for the operating expenditure of the Finnish Border Guard by EUR 1.3 million in 2020. Moreover, a supplementary appropriation is proposed to the Finnish Border Guard as a result of the EU's requirements for border security, a growth in external border traffic at the Rovaniemi Airport as well as expenditure on the standing corps of the European Border and Coast Guard Agency. A one-off supplementary appropriation of EUR

15 million is proposed to the renovation investments of the Border Guard's vessels.

In accordance with the Government Programme, the refugee quota will be subject to an annual increase of one hundred person to 850 persons in total. As a result, a total increase of EUR 0.9 million in appropriations is proposed for 2020. A further EUR 2.32 million is proposed for enhancing and accelerating integration. EUR 10 million is proposed for safeguarding decision-making resources, particularly related to work-based immigration. EUR 3 million is proposed for eliminating the backlog in the processing of asylum seekers' applications.

ISSUES RELATED TO BUSINESS AND INDUSTRY

In an effort to increase the use of the pay subsidy in companies, an increase of EUR 10 million is proposed for public labour force services. The pay subsidy scheme will be improved and its use will be expanded in partnership with labour market organisations to avoid jeopardising work performed under collective agreements or distorting competition.

A total of EUR 12.6 million is proposed for promoting the integration and employment of immigrants. For instance, the appropriation will be used to finance the expansion of the municipalities' multiprofessional competence centre activities as well as guidance and advice desks.

EUR 328 million is proposed as the grant authorisation for the research, development and innovation activities of Business Finland. Additionally, EUR 88 million is proposed to the grant-based funding provided by Business Finland. EUR 55 million of this increase re-

sults from supporting company-led research, development and innovation activities.

EUR 20 million is proposed for supporting the sustainable growth and vitality of regions, agreement-based cooperation, and projects concerning regional development. A continuation of the regional transport subsidy is proposed, and EUR 6 million is allocated to this.

As part of the Government's future-oriented investments, EUR 23 million is proposed for a fixed-term circular economy investment and innovation subsidy project in 2020.

A EUR 30 million increase is proposed to the energy aid authority to support the investments aiming at phasing out coal. EUR 5 million is proposed for the implementation of a national biogas programme.

EUR 2.1 billion is allocated to transport networks, EUR 1.4 billion of this to basic transport route maintenance. The appropriations for basic transport route maintenance includes a permanent increase of EUR 300 million, which aims to ensure avoiding an increase in the maintenance backlog and eliminating the existing maintenance backlog. Nearly EUR 500 million is allocated to development projects. A new project is launched aiming at the electrification of the rail section between Hanko and Hyvinkää. The planning of the deepening of the sea route in Ajos, Kemi, and improving the rail section between Tampere and Jyväskylä, and Seinäjoki and Vaasa, will also be started. As a one-off future oriented investment, EUR 12 million is allocated to removing dangerous level crossings and EUR 10 million to promoting walking and cycling in central government projects, and EUR 14.5 million to municipalities for similar projects in the form of discretionary government transfers. EUR 20 million is allocated to grants for private

roads.

An increase of EUR 1.25 million will be added to purchases and development concerning archipelago and ferry traffic for the purpose of repairing the docks for ferry traffic. In line with the Government Programme, public passenger traffic will be subject to a general increase amounting to EUR 20 million, for measures based on climate criteria.

The appropriations for agriculture and the food economy will be increased by EUR 33 million compared to the previous year's budget due to issues such as one-off increases proposed to environmental compensation and compensatory allowances for permanent natural handicaps. A one-off transfer of around EUR 90 million is also proposed to the Development Fund for Agriculture and Forestry (Makera).

The largest permanent increases to appropriations under the Government Programme include appropriations proposed to the climate policy in the land-use sector, and safeguarding the funding for commitments to organic farming.



ENVIRONMENTAL PROTECTION AND CONSERVATION

A EUR 100 million increase is proposed to the funding for nature conservation for the administrative branches of the Ministry of the Environment and the Ministry of Agriculture and Forestry.

The implementation of the Forest Biodiversity Programme for Southern Finland (METSO) will continue. An action programme for improving habitat biodiversity will be launched. The funding of the public administrative tasks of Metsähallitus will be improved in the area of nature conservation duties.

A total of EUR 2 million is reserved for the implementation of a prepared strategic programme for promoting the circular economy in the operating expenditure of the Ministry of the Environment and the Ministry of Agriculture and Forestry.

The operations of the Finnish Climate Change Panel will be strengthened by an annual increase in appropriations of EUR 0.45 million.

HOUSING AND COMMUNITY SERVICES

Around EUR 202 million in assets from the National Housing Fund will be used for paying housing service grants and interest subsidies.

EUR 5 million of the National Housing Fund is proposed to be used for funding a suburban development programme. EUR 20 million is proposed for the energy grants for housing companies. EUR 5 million is proposed for

renovating the housing stock to be better suitable for older people. It is proposed that the maximum amount of the demolition subsidies and the related authorisation to make arrangements with creditors be increased by EUR 5 million in order to adapt the ARA property stock to areas with shrinking populations.

The amount of built heritage maintenance grants will be increased to EUR 1.7 million.

HEALTHCARE

A total sum of EUR 10 million in appropriations is proposed for developing the services for children and families and the continuation of the Programme to address child and family services project in 2020.

To promote investigating and preventing sexual offences against children, the implementation of the Children's Advocacy Center operating model will be continued. An appropriation of EUR 0.3 million is proposed to the establishment of SERI Support Centres for the victims of sexual assault.

As part of the development of research and innovation activities in healthcare, an appropriation of EUR 5.2 million is proposed for launching the activities of a new permit authority for managing data use in social welfare and healthcare.

The National vaccination programme will be developed by expanding the TBE vaccination and also extending the HPV vaccines to boys. EUR 2.0 million will be allocated for the expansion.

An appropriation amounted to EUR 97 million is proposed for the development projects in social welfare and healthcare services in accordance with the Government Programme.

The aims include improving the availability of services in a front-loaded manner. Among other things, the development projects are concerned with securing the availability of primary services, improving the care and treatment of older people, and preparing a national, cross-administrative mental health strategy and child strategy.

An appropriation of EUR 1.5 million is proposed for the treatment of mothers with substance abuse. An appropriation of EUR 2 million is proposed to developing end-of-life care and palliative care.

RECREATION AND CULTURE

An addition of EUR 1 million is proposed for renewing the system of central government transfers for performative arts. In accordance with the Government Programme, a total increase of EUR 5.1 million is proposed to the subsidies granted to culture. An increase of EUR 1.4 million is proposed for increasing the level of artist grants.

A EUR 20 million one-off investment is proposed in the renovation of the National Theatre.

An increase of EUR 4.8 million is proposed for promoting sports and top athletics.

An increase of EUR 1.5 million is proposed for supporting workshop activities for young people.

EDUCATION

An increase of EUR 18 million is proposed for strengthening the unit price for general upper secondary education; of this, EUR 7.5 million is based on the additional increase in

line with the Government Programme.

EUR 60 million is proposed for improving the quality and equality in basic education, and EUR 25 million for developing the quality and equality in early childhood education and care. EUR 5 million is proposed for promoting continuous learning.

EUR 5 million is proposed to promoting the opportunities for recreational activities available free of charge provided in connection with the school day.

The implementation of the reform of vocational education and training is continued. EUR 2.5 million is proposed for increasing and developing the training of on-the-job counsellors. EUR 0.5 million is proposed for supporting the vocational education and training of athletes.

EUR 80 million is proposed for hiring vocational education teachers and guidance counsellors as well as for the support measures of teaching and counselling.

In 2020, EUR 40 million is allocated to the capitalisation of universities and EUR 20 million to the capitalisation of universities of applied sciences.

Finland has made preparations to host one supercomputer of the European High-Performance Computing Joint Undertaking (EuroHPC). In the period 2019–2026, Finland's funding contribution will amount to at most EUR 50 million. Allocating EUR 20 million for this purpose under the authorisation of the Academy of Finland is proposed for this purpose.

In accordance with the Government Programme, the parent supplement to study grants will be increased by EUR 25 on 1 January 2020, making the amount EUR 100 per

month. This will increase the expenditure on study grants by EUR 3 million. The study grant will also be tied to the national pension index as of 1 August 2020.



SOCIAL SECURITY incl. earnings-related pensions

EUR 0.5 million is proposed to the Equality and Equal Pay Programme. This programme will be allocated to the preparation of an extensive equality programme used to coordinate measures that aim at accomplishing an equal society in various areas.

Starting at the beginning of 2020, the child benefit for the fourth and each additional child and the single-parent supplement to child benefit will be subject to a EUR 10 increase. The maintenance allowance will be increased by EUR 7. A total of EUR 37 million has been reserved for these reforms.

The resources of the Social Insurance Institution of Finland will be strengthened by a EUR 32.8 million increase.

Appropriations of around EUR 2.2 billion are proposed to unemployment security, which is EUR 135 billion less than in the actual budget for 2019. The reduction is mainly due to the drop in the unemployment rate. Fund-

ing pay-subsidised work with unemployment benefit appropriations and employment appropriations will be continued in 2020. Youth employment is supported. A total of EUR 10 million is proposed for a work ability programme for people with partial work ability. EUR 1 million is appropriations is proposed to a development programme for working life and wellbeing at work.

The cuttings system of the activation model for unemployment security will be dismantled, and the age threshold for daily unemployment allowance will be raised to 62 years. These measures are estimated to shrink central government expenditure by EUR 9.3 million in total.

Basic social security (minimum-rate rehabilitation allowance, sickness and parental allowances and unemployment daily allowance) will be subject to a EUR 20 increase, whose cost effect to central government amounts to some EUR 40 million.

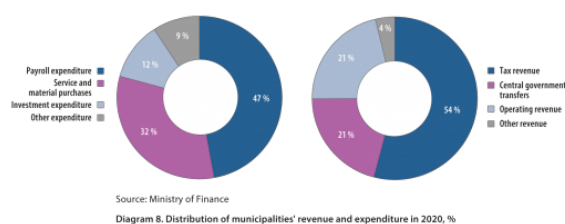
The pensions of people receiving a small pension will be raised. The net impact of these measures on general government finances is EUR 183 million. To alleviate farms' liquidity issues, the temporary reduction of the interest rate of insurance payments to the Farmers' Social Insurance Institute will be continued in 2020.

5.3 Local government finances

The central government funds the operations of municipalities with central government transfers and discretionary government transfers provided through the government aid system. Central government cannot directly influence the expenditure in municipalities; instead, this is governed by legisla-

tion set by the Parliament and the decisions made by the municipalities. The local government finances programme and chapter 8 of the general rationale of the budget proposal describe the state of local government finances and the impact of central government measures on local government finances in further detail.

In 2020, the revenue of municipalities is expected to comprise of tax revenue (54 %), operating income (21 %), central government transfers (21%) and other revenue (4 %). It is estimated that 47% of municipalities' expenditure will be allocated to wages and salary, 32% to procurement of services and materials, 12 % to investments, and 9 % to other expenditure. Distribution of municipalities' revenue and expenditure is illustrated in Diagram 8.

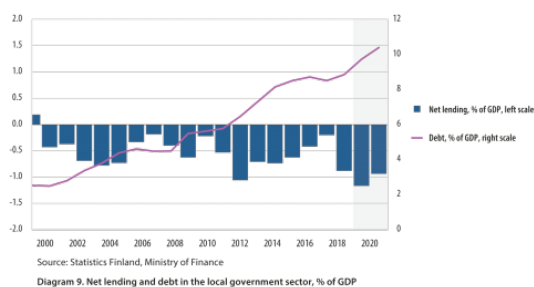


Under the Government's budgetary targets for local government finances, local government net lending (on a National Accounts basis) may not exceed -0.5 per cent in ratio to GDP in 2023.

According to the Ministry of Finance' updated projection, the local government deficit will be EUR 3.1 billion, i.e. 1.2% in ratio to GDP, in 2023. Accomplishing the budgetary target would hence require the consolidation of local administration by some EUR 1.8 billion at 2023 levels. This must be covered by the municipalities' own consolidation and productivity measures supported by central government as well as measures that

strengthen employment, which increase economic growth and therefore lead to more tax revenue.

The development of the deficit and debt is illustrated in Diagram 9 and this topic is discussed in more detail in Chapter 2.3 of the autumn 2019 Economic Survey of the Ministry of Finance.



Central government measures affect the revenue and expenditure of municipalities. The net impact of central government measures will strengthen local government finances by approximately EUR 304 million in 2020. Compared to 2019 levels, central government transfers will also be boosted by a total of EUR 286 million by a reduction in the cuts to central government transfers to local government introduced as part of the Competitiveness Pact. In the context of the adjustment of the division of costs between central and local government, central government transfers will be increased by a total of EUR 124 million, and the index increase (2.4%) will increase the central government transfers by around EUR 198 million. The change in the number of inhabitants and calculation factors increases the central government transfers to local government by slightly over EUR 18 million.

In accordance with the Government Programme, the proposed new or expanded tasks include the expansion of the subjective right to early childhood education and care, reduc-

tion of group sizes in early childhood education and care, support for diversity in families and life situations, and transforming Vaasa Central Hospital into a hospital providing extensive 24-hour care services. Other measures to be implemented include raising the maximum age limit for aftercare services in child welfare from 21 to 25 years, and starting the instruction of the A1 language earlier in basic education, on which a decision has been made earlier. Overall, the central government transfers to local government will be raised by approximately EUR 36 million in connection with the increase in the municipalities' tasks.

Other significant changes in government transfers and grants are related to the reform of the social welfare and health care system, for which EUR 90 million is proposed for 2020. This includes the statutory minimum staffing level (0.7) for care personnel in units providing 24-hour care, the sufficiency of home care resources and the development of informal care, the national mental health strategy, and safeguarding the availability of primary services.

Additional financing for improving the quality and equality in basic education and in early childhood education and care as well as for hiring vocational education teachers and guidance counsellors have been taken into account.

In connection with MAL agreements, EUR 15 million is allocated to municipal infrastructure grants and EUR 30 million to MAL start-up grants.

The impact of central government measures on municipalities has been analysed in more detail in Chapter 8.3 of the general strategy and outlook of the budget proposal and in Chapter 2.2 of the local government finances programme.

6 Summary

This publication examines the budget proposal for 2020.

The objective of Prime Minister Rinne's Government economic policy is to increase well-being. This means ecologically and socially sustainable economic growth, high employment and sustainable public finances. The objective of the Government is that given normal global economic circumstances, Finland's general government finances will be in balance in 2023. This objective is supported by the Government's goal for increasing the employment rate to 75 per cent.

The Government Programme of Prime Minister Rinne's Government decided on permanent increases in general government expenditure amounting to around EUR 1.4 billion at the level of 2023 compared to the Technical General Government Fiscal Plan of spring 2019. The permanent additional Government expenditure will be primarily covered by permanent additional revenue based on decisions as well as the reallocation of resources. The solutions concerning taxation also aim at promoting the set climate targets. During the parliamentary term, the Government will implement a one-off programme of future-oriented investment that supports the attainment of the Government Programme's objectives and long-term sustainability of general government finances.

Economic growth is projected to slow down to 1 per cent in 2020. The number of employed people is expected to grow and unemployment rate to drop. The steady growth of the Finnish economy over the past few years has

improved the state of general government finances. Due to population ageing, however, there is a considerable sustainability gap, i.e. an imbalance between revenue and expenditure, in general government finances in the long term.

The total sum of the 2020 budget proposal rises to EUR 57.6 billion. The central government on-budget deficit is predicted to amount to approximately EUR 2.0 billion and central government debt is expected to rise to approximately EUR 109 billion. The budget proposal for 2020 includes increases in accordance with the Government Programme concerning, for instance, raising small pensions, developing social welfare and healthcare services, early childhood education and care, education and research, as well as funding allocated to nature conservation. In accordance with the Government Programme, the taxes on transport fuels will be raised in 2020. The basis for the taxation of earned income will be subject to an index adjustment, and the taxes on low and middle incomes will be moderately cut in an effort to compensate on the effects of higher indirect taxes.

The budget proposal for 2020 will also be updated on the www.tutkibudjettia.fi website which allows the budget to be examined visually from different perspectives.



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